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SUBJECT: Global Financial Crisis Claims Next Victim in Victoria

REF: Melbourne 125, Melbourne 123

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Summary

1. (SBU) The global financial crisis has found its latest victim in Victoria's building sector. A dearth of financing and sagging consumer confidence have put the brakes abruptly on Victoria's ten year construction boom. While the Rudd government will soon announce an AU \$300 million (US \$194 million) stimulus program aimed at injecting money into local infrastructure projects, some observers worry that assistance may not help the troubled building industry. With its auto industry on the rocks and building coming to a halt, the global financial crisis is continuing to hit home in Victoria. End Summary.

Global Financial Crisis Hits Melbourne Builders

2. (SBU) Melbourne's previously booming building sector is coming to a halt. Asher Judah, Manager for Policy at the Master Builders Association Victoria (MBAV) confirmed that AU \$1 billion (US \$645 million) of business and approximately 300 jobs have already been lost due to scarce financing available for ongoing and new projects. The global credit crunch and the resulting loss of confidence, Judah said, have led large and small builders alike to cut costs and scale back both ongoing and planned projects. According to the MBAV, all of Australia's states, with the exception of South Australia and Western Australia, have experienced a drop in residential housing starts. (Note: The MBAV advocates for more than 7,000 residential and commercial building companies as well as subcontractors and material suppliers. They have branches in each of Australia's six states. End note.)

3. (SBU) Judah confirmed media reports stating that several large builders such as Multiplex and Mirvac have laid off hundreds of staff and have scaled back or reconsidered ongoing projects. Mirvac's AU \$1 billion (US \$645 million) fruit and vegetable market in Melbourne's Epping suburb is reportedly on the brink of collapse due to funding problems. More than AU \$5 billion (US \$3.23 billion) of other major building projects face delays or substantially reduced outlays. According to Judah, builders are considering converting commercial buildings into residential complexes where they believe demand is still strong. Adding to builders' financing woes, potential tenants have backed down citing "unfavorable" economic conditions, leading some contractors to delay or indefinitely postpone projects.

The Worst is Yet to Come

4. (SBU) James Hodges and Sam Steele at Victoria's Department of Innovation, Industry and Regional Development (DIIRD) echoed these sentiments and noted that the construction pipeline is "drying up."

While Hodges emphasized that Melbourne's construction companies have not "overbuilt," he conceded that the problems visible today are just the tip of the iceberg. Long lead times and lengthy approval procedures mean that the losses experienced by the building sector today will hit home over the next 18 months. MBAV's Asher Judah predicts that losses in the commercial construction sector will begin to truly manifest in the first two quarters of 2009. If, as Judah fears, larger contractors fold in a stagnant building market, smaller sub-contracting companies risk being pulled down with them.

15. (SBU) According to Judah, residential developers are more optimistic. Approximately 50-70 percent of MBAV's residential builders say that business is "good." Some companies have attributed this temporary confidence to the Rudd government's October 14 plan to inject AU \$10.4 billion (US \$6.71 billion) into the Australian economy by granting assistance to retirees, families, and temporarily tripling government aid for first-home buyers from AU \$7,000 to AU \$21,000. Larger Australian banks have begun to cut commissions, "wiping out" some of the smaller mortgage lenders. With finance drying up, even residential builders catering to Victoria's rapidly growing population are beginning to worry.

Build Australia?  
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16. (SBU) The Rudd government is preparing to announce an AU \$300 million (US \$194 million) infrastructure initiative aimed at funding city-level projects such as building community halls, parks and revamping schools. Asked whether this initiative would be able to bolster Victoria's flagging construction sector, MBAV's Asher Judah said that the money would only help if it flows to projects already approved and ready to break ground immediately. The president of the Local Government Association, Paul Bell stated publicly on November 18 that local governments nationally had over AU \$1 billion worth of infrastructure projects "ready to go" as soon as funding is

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made available.

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17. (SBU) With substantial banking industry layoffs feared to be imminent (the announcement of Citi shedding 14 percent of its workforce globally has sparked fears that Australia's banks may be next) and the credit crunch exacerbating the auto industry's pre-existing problems, trouble in the building sector is further evidence that the global financial crisis has hit home in Australia.

THURSTON